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South Africa, Republic of

Sugar

Annual Report

2006

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Report Highlights:

After producing about 21 million tons of sugar cane during the 2004/05 season, production this year is expected to reach 21.5 million tons. Sugar production amounted to 2.595 million tons raw value in 2004/05 but is expected to decline to 2.585 million tons in 2005/06 due to a lower sucrose content in the cane brought about by inclement weather. Exports exceeded 1.2 million tons in 2004/05 and are likely to reach this target again this year.

Includes PSD Changes: Yes

Includes Trade Matrix: Yes

Annual Report

Pretoria [SF1]

[SF]

Summary

After producing about 21 million tons of sugar cane during the 2004/05 season, production this year is expected to reach 21.5 million tons. Sugar production amounted to 2.595 million tons raw value in 2004/05 but is expected to decline to 2.585 million tons in 2005/06 due to a lower sucrose content in the cane brought about by inclement weather. Exports exceeded 1.2 million tons in 2004/05 and are likely to reach this target again this year. More important is that the import tariff on sugar was cut from US\$ 36.7/mt. to zero on March 16, 2006. This mainly reflected the higher international prices as the tariff is based on international price movements. The higher international prices are causing the industry to revise its plans. The proposed EU production cuts and the switch from edible sugar to ethanol production in Brazil will likely support world prices at these higher levels affecting the economics of ethanol production. The renewable energy developments will be the subject of a future GAIN report.

www.sugar.org.za

US \$1= Rand 6.05 (04/20/2006)

Sugar cane

PSD Table

Country	South Africa					
Commodity	Sugar Cane					
1000 HA	2005	Revised	2006	Estimate	2007	Forecast
1000 MT	USDA [Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin	04/2004		04/2005		04/2006	
Area Planted	429	425	430	428	0	429
Area Harvested	322	316	325	331	0	330
Production	19095	19095	21492	21052	0	21500
TOTAL SUPPLY	19095	19095	21492	21052	0	21500
Utilization for Sugar	19095	19095	21492	21052	0	21500
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	19095	19095	21492	21052	0	21500

Production

Rainfall for the 2004/05 season was below normal through the entire industry resulting in the smallest crop since 1995/96. Conditions for the 2005/06 season were more favorable with the final sugar cane yield reaching 64 tons per hectare yielding a cane cut of about 21 million tons and sugar production of about 2.5 million MT (2.6 million MT raw value). About 100,000 ha. of the 430,000 ha. planted to cane is under irrigation.

The 2006/07 season to date is characterized by the late start to the rainfall season followed by very heavy rains since mid December. The drought and irrigation water shortage in Mpumalanga was comprehensively broken. The only negative impact on the crop could be the lack of sunlight and heat caused by the incessant rain since the beginning of the year. That is why we foresee a higher cane/sugar ratio because of a lower sucrose content in the cane. At this stage we can only forecast a 21.5 million ton cane cut producing 2.5 million MT of Tell Quell sugar.

The following table contains production details:

Season	Area Planted HA	Harvested HA	Yield MT/HA	Cane crushed MT	Sugar prod. MT*	Cane/sugar ratio
2002/03	430 106	321 234	71,64	23 012 554	2 762 885	8.33
2003/04	426 861	325 956	62,64	20 418 933	2 419 287	8.44
2004/05	424 907	316 010	60.42	19 094 760	2 234 890	8.54
05/06 est.	428 372	330 515	63.7	21 052 266	2 507 203	8.40
06/07 forc.	429 000	330 000	65.2	21 500 000	2 500 000	8.60

*Tel Quell x 1.035 = Raw value

Cane prices

Through the revenue sharing arrangement between millers and growers, growers are paid a share of industry proceeds. Outlined below is recent recoverable value (RV) prices paid by millers to growers together with the cane price at average recoverable values for the

industry. Revenues earned in the various markets determine prices for the year. With the remarkable recovery in the international sugar market brought about by the energy crisis, price prospects for the new 2006/07 season have improved considerably.

SA Rand/MT.	RV Price	Cane Price	Cane/sugar ratio
1998-1999	1 046,62	125,85	8.67
1999-2000	971,09	121,36	8.38
2000-2001	1 105,00	130,50	8.75
2001-2002	1 352,14	160,23	8.83
2002-2003	1 368,79	171,78	8.33
2003-2004	1 357,01	169,08	8.44
2004-2005	1 297,19	159,55	8.54
2005-2006	1 389.80	164.54	8.40
2006-2007*	1 600.00	195.00	8.60

*Forecast

Since the start of the current energy crisis the international sugar price has jumped from about 6 US cents a pound in 2004 and 8 cents per pound in 2005 to about 19 cents per pound. This is mainly due to Brazil switching more of its production into Ethanol. As a result the economics of envisaged local Ethanol production changed considerably necessitating a rethink. The whole renewable energy issue will be looked at in a separate GAIN report.

Centrifugal sugar

Commodity 1000 MT	Sugar					
	2005	Revised	2006	Estimate	2007	Forecast
	USDA[Old]	Post [New]	USDA [Old]	Post [New]	USDA [Old]	Post [New]
Market Year Begin	04/2004		04/2005		04/2006	
Beginning Stocks	870	870	920	870	980	870
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2360	2315	2665	2595	0	2585
TOTAL Sugar Production	2360	2315	2665	2595	0	2585
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	245	245	250	200	0	175
TOTAL Imports	245	245	250	200	0	175
TOTAL SUPPLY	3475	3430	3835	3665	980	3630
Raw Exports	750	635	950	940	0	900
Refined Exp.(Raw Val)	270	365	350	280	0	310
TOTAL EXPORTS	1020	1000	1300	1220	0	1210
Human Dom. Consumption	1530	1555	1550	1570	0	1560
Other Disappearance	5	5	5	5	0	5
Total Disappearance	1535	1560	1555	1575	0	1565
Ending Stocks	920	870	980	870	0	855
TOTAL DISTRIBUTION	3475	3430	3835	3665	0	3630

Production

The 2005/06-sugar production amounted to 2.507 million metric tons Tell Quell (2.595 million MTRV), compared to the actual 2004/05 production of 2.235 million tons, (2.315 million MTRV). This increase was due to a return to 'normal' production. A very similar scenario is foreseen for the current 2006/07 milling season. The industry expects that in a normal rainfall year 2.5 million tons of sugar will be produced and the industry plans on this basis until the first estimates are received, which for 2006/07 will be late in April 2006.

Consumption

Sugar supplies into the Southern African Customs Union (SACU) have changed markedly since the early 1990's, when South Africa was the main supplier in the region with over 95% of market share. In the meantime the market was opened up and South Africa has lost market share to both Swaziland and to Southern African Development Community (SADC) sugar producers. The number of sugar suppliers in the market has increased significantly and South Africa's share of the SACU market is currently below 80%. In addition, the general import duty was cut to Zero on April 13, 2006. This was based on the formula calculation used to determine the tariff and the high current sugar prices.

The increased flow of sugar from the region into South Africa has had a significant impact on the South African sugar industry. The demand for sugar in the region has grown by roughly 1% per annum over 10 years, with demand closely correlated to growth in real disposable income and growth in gross domestic product. Domestic supplied local consumption amounted to 1.31 million MTRV in 2004/05 to which the imports of 245,000 tons must be added for a total of 1.555 million tons. In 2005/06 local sales amounted to 1.375 million MTRV to which imports of about 200,000 are added for a total of 1.575 million MTRV

Trade

According to the South African Sugar Association, (SASA), South Africa exported 940,000 tons of raw sugar and 270,000 tons of refined for a total of 1.21 million tons in MY 2005/06 compared to 632,000 tons of raw and 353,000 tons of refined totaling 985,000 in MY 2004/05. Details are not yet available. The South African Revenue Service (SARS) reports the following exports over the previous two seasons.

Export Trade Matrix

Country	South Africa		
Commodity	Sugar		
Time Period	April/March	Units:	MT
Exports for:	2003/04		2004/05
U.S.	23646	US	23405
Others	Others		
Japan	145 040	Japan	163 000
South Korea	140 000	South Korea	140 000
Mozambique	169 785	Mozambique	112 151
Saudi Arabia	0	Saudi Arabia	79 000
Kenya	48 254	Kenya	74 229
India	49 500	India	73 822
Malaysia	80 000	Malaysia	49 000
Tanzania	16 157	Tanzania	37 325
Mauritius	30 857	Mauritius	37 059
Madagascar	46 076	Madagascar	33 731
Total for Others	725 669		799 317
Others not Listed	259 174		135 903
Grand Total	1 008 489		958 625

The trade shown going to Mozambique consists mainly of sugar shipped to other destinations through the port of Maputo.

Published imports amounted to 43,013 tons in MY 2004/05. Imports from Swaziland shown in the trade matrix are estimated as trade amongst Customs Union members are not recorded.

Import Trade Matrix

Country	South Africa		
Commodity	Sugar		
Time Period	April/March	Units:	MT
Imports for:	2003/04		2004/05
U.S.	48	U.S.	45
Others	Others		
Brazil	1 338	Brazil	13 984
Zimbabwe	4 343	Zimbabwe	12 615
Malawi	14 042	Malawi	8 613
Zambia	9 118	Zambia	7 309
Swaziland*	200 711	Swaziland	202 144
Total for Others	229 552		244 665
Others not Listed	600		490
Grand Total	230 200		245 200

* Estimate

Domestic prices

In regional trade, the local market is still the most important source of income. Protecting and growing the domestic market, and thereby minimizing exposure to the world market, remains a major priority for the Sugar Industry. These efforts require careful consideration, as they are required to meet the developmental and trade objectives of the SADC protocol (about 50,000 tons) and the SACU free market arrangement, while at the same time minimizing disruptions and protecting the value of the domestic market. In this context the Swaziland Sugar Protocol is of vital importance to the region as it is intended to ensure equitable access to the SACU market from the regions' two main producers, South Africa and Swaziland. The importance of an equitable arrangement cannot be understated as it underpins the value of market for both participants.

During the 2004/2005 season Swaziland chose to disregard the market access agreement and supplied the domestic market with approximately 60,000 tons of sugar over and above their agreed access tonnage. The short-term effect on the South African farmers' was that it displaced an equivalent tonnage of South African sugar onto the world market.

Sugar prices in SACU are established in a regulated environment determined by the duty payable on sugar imports, recently cut to zero. Millers, who sell the sugar domestically, compete against each other in the market, but also face competition from SADC countries, Swaziland, and world price imports from other origins.

The dollar based reference price system was established by the DTI on the basis of a 10 year average of the No. 5 world refined sugar price adjusted for certain elements. Domestic sugar prices have historically tended to increase at below the consumer price index. In 2003 sugar prices decreased with millers reporting a 7% decline following the strengthening of the Rand. In general, ex-factory sugar prices have remained mainly unchanged since 2003 due to the ongoing strength of the Rand.

The current ex-factory refined sugar price is about R3,500/MT. or R3.50/kg. or \$579/MT or 58 US cents/kg. at the current exchange rate of US\$1=R6.05.

The only protection the industry enjoyed was the import tariff, which is based on the price formula administered by the Department of Trade and Industry. On September 23, 2005, the formula kicked in and the import tariff for sugar was cut from 55 c/kg (R550/ton) to 23.3 c/kg (R233/ton). In US\$ terms the tariff was \$86.6/ton which was cut to \$36.7/ton. On March 16, 2006 the high world sugar price caused the formula to kick in again and the import tariff was reduced from the 23.3 c/kg. to free. All protection has thus been removed.

The Division of Proceeds

The Division of Proceeds is the formula through which revenue is allocated to the millers and growers as part of the partnership arrangement. The proceeds from the sale of sugar in the national market, raw export sugar and molasses comprise total industrial proceeds. Total proceeds are determined by the size of the crop and the prices achieved on the local and export markets. Prices for sugar and molasses are dependent on market conditions both locally and abroad as well as the Rand/dollar exchange rate.